

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 08/15)

Fiscal Year 2016	Business Unit 8660	Department Public Utilities Commission	Priority No. 003
Budget Request Name 8660-003-BCP-BR-2016-GB		Program 6685- Universal Service Telephone Programs	Subprogram 6685028- Universal Lifeline Telephone Service Program

Budget Request Description

Universal LifeLine Telephone Service Trust Administrative Committee Fund—Increase Appropriation to Fund
Increased Wireless Subscriber Caseload

Budget Request Summary

In order to comply with statutory mandates to offer discounted and affordable basic telephone services to eligible low-income households, the Universal LifeLine Telephone Service Trust Administrative Committee Fund requires additional funding for Local Assistance in the amount of \$267.4 million for FY 2016-17, and State Operations funding in the amount of \$14.2 million for FY 2016-17, funded by the Universal Lifeline Telephone Service Trust Administrative Committee Fund (Fund 0471). The increase in funding is needed primarily to fund new and increased subscribership for wireless service plans by California LifeLine participants. Further, the additional funding will allow eligible households to subscribe to discounted, affordable, and sustainable wireless service plans that include voice, text, and internet access that would (1) improve their ability to obtain employment; (2) expand access to public and private resources for education, training, and commerce; and (3) increase access to public resources enhancing public health and safety, and promote economic growth and job creation.

Requires Legislation <input type="radio"/> Yes <input checked="" type="radio"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="radio"/> Yes <input checked="" type="radio"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR Project No. Date:		

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Ryan Dulin	Date 01-05-16	Reviewed By Jack Sawyer	Date 01-05-16
Department Director Timothy J. Sullivan	Date 01-05-16	Agency Secretary	Date

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA Original Signed By:
Ellen Moratti Date submitted to the Legislature

1-7-16

A. Budget Request Summary

This proposal seeks an incremental increase to the appropriation for the Universal LifeLine Telephone Service Trust Administrative Committee Fund, commonly known as the California LifeLine Program, of \$281.6 million (\$14.2 million for state operations and \$267.4 million for local assistance) to provide funding sufficient to support the projected increased claims for wireless service plans by California LifeLine participants.

In order to comply with statutory mandates to offer discounted and affordable basic telephone services to eligible low-income households, the California LifeLine Program requires additional funding as described above for state operations and LifeLine service provision for FY 2016-17. The increase in funding is needed primarily to fund new and increased subscribership for wireless service plans by California LifeLine participants. This additional funding will allow eligible households to subscribe to discounted, affordable, and sustainable wireless service plans that include voice, text, and Internet access that would (1) improve their ability to obtain employment; (2) expand access to public and private resources for educations, training, and commerce; and (3) increase access to public resources enhancing public health and safety, and promote economic growth and job creation. Due to the expansion of the program, the increase in funding will also allow the California LifeLine Third Party Administrator to continue to provide third-party validation of California LifeLine Program public applications to California LifeLine service providers (carriers) as a result of Commission Decision 14-01-036 implementation.

B. Background/History (*Provide relevant background/history and provide program resource history. Provide workload metrics, if applicable.*)

In September 1983, Assembly Bill (AB) 1348 (as codified in PU Code Section 871), known as the Moore Universal Telephone Service Act, became law to provide for the availability of affordable "basic local telephone service" to all qualifying low-income households. To qualify, a household must have income below 150% of the federal poverty guidelines or be enrolled in a qualifying government assistance program.

In 1984, CPUC Decision 84-04-053 established the California LifeLine Program (formerly known as the Universal LifeLine Telephone Service Program) that helps lower the cost of eligible households' monthly phone bills. Eligibility is determined by a Third Party Administrator hired by the CPUC. Once a customer or household member is approved or becomes a participant in the program, the service provider applies a discount to the participant's bill and then files monthly claim reimbursements for the discounts granted to its eligible households with the CPUC. The program has been funded by a 3.8% ULTS surcharge on end-user's intrastate telephone bills. This surcharge increased to 5.5%, effective October 1, 2015, pursuant to Resolution T-17486, adopted by the Commission at its August 27, 2015 meeting.

On June 1, 2012, a new third-party administrator, Xerox State and Local Solutions, Inc., took over the enrollment verification, customer notification, and database requirements from the previous contractor (Solix Inc.). The California LifeLine Administrator is responsible for determining eligibility of low-income households in the program, as well providing a multi-language customer support call center.

Current enrollment processes include, among other things, the (1) Direct Application Process, which was mandated by the Commission in Resolution T-17366; (2) Image Exchange Process that allows carriers to maintain electronic copies of all their customer enrollment forms only, pursuant to FCC Order 12-11 requirement; and (3) Identity Verification Process, which is a requirement of the FCC as a condition of California opting out of the National Duplicates Database. The Third Party Administrator performs additional services and eligibility determination processes that are required by the FCC and the Commission. Some of the services include, but are not limited to, the following: E-signature, mail forwarding and identity verification processes, interactive voice recording (IVR) renewal process enhancement in which existing participants may renew enrollment in the program by calling into the Administrator's secure IVR system, and also allowing options for participants to remove themselves from the program, database and website management, and ongoing enrollment processing.

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Of the changes made to the program since its inception, the most significant ones were adopted in CPUC Decision 14-01-036, issued on January 16, 2014. The Decision expanded and modernized the California LifeLine Program as well as authorized the voluntary participation of wireless service providers in the program. Today, a low-income eligible household has the option to subscribe to either wireline or wireless service plans that include voice, text, and data at discounted and affordable rates.

Since March 2014, the Commission has approved eleven (11) wireless service providers. As a result of the new wireless service offerings, the CPUC has experienced a substantial increase in reimbursement requests from California LifeLine wireless service providers.

As of June 30, 2015, the CPUC has nine (9) pending applications from wireless service providers to participate in the federal and/or California LifeLine Program. Thus, by the end of FY 2016-17, the Commission anticipates continued growth and estimates that at least nine (9) additional new wireless service providers will participate in the California LifeLine Program.

Since the introduction of California LifeLine Wireless, the California LifeLine Program has experienced a significant, rapid increase in consumer and carrier demand, and therefore program volume and costs have increased proportionately. The California LifeLine Third-party administrator services are very complex, and include extensive technical communications and coordination between the contractor, the participating carriers, the CPUC, and the public. The California LifeLine Program cannot function without the third-party administrator services. As of June 30, 2015, the California LifeLine Third Party Administrator has received and reviewed over 4 million applications. However, by the end of FY 2016-17, CD anticipates that 8.4 million applications will be received and processed by the Third Party Administrator resulting from additional California LifeLine wireless service providers in the program, and aggressive outreach and marketing strategy for offering California LifeLine wireless service plans by all California LifeLine wireless service providers.

Hence, additional State Operations and Local Assistance funding is crucial to sustain the discounts offered to low-income households.

Below is (1) a breakdown of the forecasted California LifeLine customer count for FY 2015-16 and FY 2016-17, (2) breakdown for budget increase request/expenditures for FY 2016-17, and (3) a brief explanation for each budget line item for FY 2016-17 budget.

I. CALIFORNIA LIFELINE CUSTOMER COUNT

- a. The numbers below represent forecasted customer count for wireline and wireless services for the California LifeLine Program for FY 2015-16 and FY 2016-17:

	Customer Count	
	FY 2015-16	FY 2016-17
No. of California LifeLine Wireline subscribers ¹	523,526	319,526
No. of California LifeLine Wireless subscribers ²	2,531,796	3,455,796
Total No. of California LifeLine subscribers	3,055,322	3,775,322

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¹ Accounts for 17,000 wireline subscription month-to-month decrease from 727,526 total actual California LifeLine participants in FY 2014-15.

² Accounts for 91,000 wireless subscription month-to-month increase from 1,439,796 total actual California LifeLine participants in FY 2014-15 and 77,000 wireless subscription increase month-to-month from 2,531,796 total forecasted participants in FY 2015-16.

II. PROGRAM BUDGET

a. The table below represents the breakdown of the California LifeLine budget expenses:

California LifeLine Budget FY 2016-17		
A	Total customers monthly recurring charges (wireline and wireless)	\$ 557,702,567
B	Total Administrative charges (wireline and wireless)	\$ 20,671,932
C	Wireless New Connection charges	\$ -
D	Wireline New Connection charges (based on carriers forecast)	\$ 1,044,436
E	Implementation costs (wireline and wireless)	\$ -
F	Wireless Surcharge & Taxes (16%)	\$ 5,822,008
G	Wireline Surcharge & Taxes (based on carrier's forecast)	\$ 6,365,677
H	Total Carrier Claims FY 2016/17 (round to the nearest thousands)	\$ 591,607,000
I	State Operations	\$ 35,655,000
J	Total Forecasted Budget	\$ 627,262,000
K	FY 2015/16 Appropriation (Governor's Budget)	\$ 345,665,000
L	BCP Request	\$ 281,597,000

III. BUDGET TABLE EXPLANATION

a. The letters below correspond with the letters in the LifeLine Budget FY 2016-17 table above.

California LifeLine Budget Item Explanation	
A	Total customer monthly recurring charges are calculated by applying the California LifeLine subscriber's month-to-month for both wireline and wireless in FY 2016-17 x 55% of COLR highest rate.
	CD assumes \$13.20 SSA (55% of AT&T's \$24 rate) for Fiscal Year 2016-2017 for months July 2016-December 2016.

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	CD assumes \$13.75 SSA (55% of AT&T's \$25 rate) for Fiscal Year 2016-2017 for months January 2017-June 2017.
B	Administrative charge is calculated by applying the California LifeLine subscriber's month-to-month for both wireline and wireless in FY 2016-17 x monthly administrative charge of \$0.50 per subscriber.
	Administrative charge is assessed monthly.
C	Per Decision 14-01-036, the variable \$39 non-recurring/activation/connection/conversion (NRC) support was discontinued on June 30, 2015. Further evaluation of the NRC support will be considered in Phase II of the California LifeLine Proceeding (R.11-03-013).
D,G	General Order 153, Section 10.4.2, requires carriers to annually submit to CD a forecast of the utility's California LifeLine Program claims.
	CD adopted wireline carriers forecast of \$1,044,436 for new connection charges and \$6,365,677 for surcharges and taxes for FY 2016-17.
E	CD does not anticipate implementation costs for FY 2016-17 that would require any IT system upgrades or changes by carriers.
F	Wireless Surcharge & Taxes is calculated by applying the California LifeLine subscriber's month-to-month x surcharge rate of 16%.
	Based on average of city taxes & surcharges of 8% + program surcharges of 7.89% (LifeLine 3.8%, DDTP 0.50%, CTF 1.08%, CASF 0.46%, CHCF-A 0.35%) + 1.7% (increase for LifeLine from 3.8% to proposed 5.5%) = 16%.
H	Total Carrier Claims (A+B+C+D+E+F+G)
I	State operations include expenses, such as staff travel costs, salaries, contracts costs, administrative committee costs, and Pro-Rata costs.
J	The total forecasted budget for FY 2016-17 (H+I).
L	\$281,597,000 is the difference between the total forecasted budget for FY 2016-17 of \$627,262,224 and FY 2015-16 appropriation of \$345,665,224.
	\$281.597 million represents additional California LifeLine funding needed for FY 2016-17.

C. State Level Considerations

PU Code Sections 871 et seq. require the Commission to develop, implement, and administer a program to advance universal service goals by providing high-quality basic telephone service at affordable rates to eligible low-income households. The California LifeLine Program enables low-income households to subscribe to discounted and affordable traditional landline/wireline and wireless services, which provide communications links to jobs, family and friends, and social and emergency services that improves their quality of life. In particular, the program allows participants to have access to 211 for essential community services, 311 for non-emergency municipal services, 511 for traffic and transportation information, 711 for relay services, 811 for public infrastructure underground location, and 911 to reach police, fire and emergency medical services.

D. Justification

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CPUC Decision 14-01-036, issued in January 2014, expanded and modernized the California LifeLine Program by authorizing, among other things, voluntary participation by wireless service providers to meet the shifting communications needs of low-income households. As a result, there has been substantial growth in wireless participation since wireless service providers began offering affordable wireless service plans in March 2014 to qualifying low-income households. This growth in the program necessitates an increase in Local Assistance funding and State Operations funding for FY 2016-17.

As of June 31, 2015, there were eleven (11) California LifeLine wireless service providers authorized to offer wireless service plans to eligible low-income households. It is anticipated, however, that by FY 2016-17, there will be at least nine (9) additional California LifeLine wireless providers participating in the program.

The number of California LifeLine **wireline** participants has been declining steadily by approximately 17,000 monthly for the last 6 months (January 2015 to June 2015). Hence, the CPUC anticipates that by the end of FY 2016-17, there will be approximately 319,526 wireline participants in the program, a decrease from 727,526 subscribers by the end of FY 2014-15.

In FY 2014-15, there were 1,439,796 wireless participants in the California LifeLine Program. The total number of California LifeLine participants was approximately 72% of the 3.2 million (150% at or below poverty level) eligible low-income households provided by the Department of Finance (DOF) to the Communications Division on July 11, 2014. However, based on the most recent research of government assistance programs, such as CalFresh (the maximum household gross income for eligibility is 200% of the Federal poverty level, and this is also a qualifying government assistance program for the California LifeLine Program), there are approximately 4.2 million eligible low-income households in California, per DOF on May 19, 2015. Hence, for budgetary purposes, it is prudent to forecast FY 2016-17 budget based on the 4.2 million eligible low income households. Given the subscribership rate of 72% of the 3.2 million eligible households by the end of FY 2014-15, it is reasonable to forecast that there would be approximately 90% participation rate of the 4.2 million eligible low-income households, resulting in 3.7 million service participation in the California LifeLine Program by the end of FY 2016-17. With the forecasted total number of subscribership for both wireline and wireless services of approximately 3.7 million, the Specific Support Amount or subsidy of approximately \$13.20 for the first half of FY 2016-17 and \$13.75 for the second half of FY 2016-17 per participant, plus administrative costs of \$0.50 per subscriber, and taxes and surcharge costs, the total funding increase needed to support the California LifeLine Program local assistance in FY 2016-17 is estimated at \$267.4 million.

In addition, the California LifeLine Program requires additional funding for state operations in the amount of \$14.2 million for FY 2016-17. CPUC notes that FY 2016-17 state operations is approximately 5.5% of the total budgeted cost. The increased funding is required primarily to reimburse increased costs incurred by the Third Party Administrator to provide, among other things, additional services for eligibility determination of applicants, and other related work to the California LifeLine Program.

Since the introduction of California LifeLine wireless service in 2014, the California LifeLine Program has experienced a significant, rapid increase in consumer and carrier demand, and therefore program volume and costs have increased proportionately. The CPUC forecasts \$28.8 million for the California LifeLine Third Party Administrator's expense for FY 2016-17 compared to the \$12.3 million in FY 2014-15. The CPUC made a reasonable assumption of \$28.8 million based on the month over month growth from 2.2 million subscribers of the approximately 3.2 million eligible low-income households as of June 20, 2014, to 3.7 million forecasted subscribers of the 4.2 million eligible low-income households in California in FY 2016-17.

E. Outcomes and Accountability

The table below illustrates the number of applications received and processed by the Third Party Administrator and the number of wireline and wireless participants in the program.

Note that wireless subscriptions did not commence until March 2014 and that the numbers shown for FY 2015-16 and FY 2016-17 for California wireline and wireless participations are projected numbers.

Projected Outcomes

Workload Measure	PY 3 FY 11-12	PY 2 FY 12-13	PY 1 FY 13-14	PY FY 14-15	CY FY 15-16	BY FY 16-17
1. Applications Received/processed	4,961,019	3,311,504	2,501,059	4,755,441	6,788,889	8,400,000
2. No. of CA LifeLine Wireline subscribers	1,518,763	1,173,692	947,959	727,526	523,000	320,000
3. No. of CA LifeLine Wireless subscribers	0	0	90,656	1,440,371	2,532,000	3,460,000
4. Total No. of CA LifeLine Wireline and Wireless subscribers	1,518,763	1,173,692	1,038,615	2,167,897	3,055,000	3,780,000

The above figures were obtained from the Third Party Administrator who is required to submit monthly and annual reports to the CPUC for accounting and auditing purposes. Row 1 (Applications Received/Processed) of the table represents the total number of applications/renewals per FY by qualification categories in the processing and/or disposition of California LifeLine Program applications by the Third Party Administrator. These qualification categories, which were developed for billing purposes, are as follows: Applications Approved, Renewals Approved, Applications Denied, Renewals Denied, Applications Denied (non-Response), Renewals Denied (Non-Response), Applications Resent, and Renewals Resent. The combination of Rows 2 and 3 (No. of CA LifeLine Wireline and Wireless Subscribers) represents the number of active/approved customers on the program. Thus, the difference between Rows 1 and 2 + 3 is the total number of qualification categories that did not translate to approved customers. Row 4 represents the total number of California LifeLine subscribers in the program (Row 2 + Row 3).

F. Analysis of All Feasible Alternatives

Alternative #1: Proposal as outlined in the BCP: cost \$281.6 million

As mandated by PU Code Section 871 et seq., the CPUC will successfully satisfy the statutory requirements set forth in this section by providing basic high quality communications services to qualifying low-income households. The added funding would enable eligible households to subscribe to either wireline or wireless service plans in order to meet their communications needs. In particular, this would allow them to continue to connect to their family and friends, health care providers, various social services as well as emergency and non-emergency services, and employment services.

Alternative #2: Reduce the amount of discount to 50% of what is currently offered to California LifeLine participants.

The CPUC could potentially reduce the amount of discounts given to California LifeLine participants. For example, the CPUC could reduce the current discount amount from \$12.65 (expected to increase to approximately \$13.20 effective January 1, 2016) to \$6.33 for 1,000 wireless voice minutes plan. However, this would negatively impact low-income households by limiting their ability to subscribe to California LifeLine services. Moreover, carriers would be less likely to participate in the program and thus, there would be fewer wireless carriers/service plans or options for the participants to choose from. The marketplace will become less competitive so that wireless service rates and charges would go up and will become unaffordable for California LifeLine participants. Once the service becomes unaffordable, the CPUC would be unable to meet the universal goal of offering high-quality service at affordable rates to the greatest number of California residents. This would also be a significant regulatory impact because the CPUC would have to modify California LifeLine rules, regulations and policies set forth in numerous California LifeLine decisions and resolutions, which could be a lengthy process. Finally, electing this option would contradict the universal obligation of offering affordable basic phone service to eligible low-income households as mandated by PUC Code section 871 et seq. In the event that this alternative is approved, it would require a Commission decision that would take at least a year to implement; 6 - 9 months to draft; solicit stakeholders' feedback, and finalize the decision,

plus 3 months for the service providers to modify their discount/billing process. This alternative, however, is likely to generate intense oppositions from California LifeLine participants, community based organizations, and local governments.

Alternative #3: Allow only existing participants to receive discounts.

The California LifeLine Program will only provide discounts to those who are currently participating at a certain period of time before the funding is depleted to ensure that no additional funding is needed. No outreach or no new applications will be processed during that period of time. This option, however, is not a viable option because it does not comport with universal service mandates set forth in PU Code Section 871 et seq., particularly, PU Code Section 871.5(c) which states, "Every means should be employed by the commission and telephone corporations to ensure that every household qualified to receive lifeline telephone service is informed of and is afforded the opportunity to subscribe to that service."

In the event that this alternative is approved, it would require a Commission decision that would take at least one or more years to implement due to potential legal challenges from stakeholders that the Commission would receive. In addition, this alternative is likely to generate intense opposition from California LifeLine participants, community based organizations, and local governments.

G. Implementation Plan

In the event this BCP is approved, the California LifeLine Program would be able to accommodate the current estimated growth in California LifeLine wireless participation rate and program expenditures expeditiously, as the CPUC has a surcharge mechanism in place to increase California LifeLine surcharge revenues, to compensate for increased expenditures in the program.

H. Supplemental Information

N/A.

I. Recommendation

The CPUC recommends that the BCP be approved in order to meet the statutory mandates set forth in PU Code Section 871 et seq. The increased Local Assistance funding for FY 2016-17 and the increased State Operations funding for FY 2016-17 would allow eligible low-income households to continue to receive discounted and affordable high-quality basic telephone service that best meets their communications needs. In particular, it would allow them to connect to various social service, emergency and non-emergency services, as well as to jobs and health care providers that would improve their quality of life.

BCP Fiscal Detail Sheet

BCP Title: Lifeline Appropriation Increase

DP Name: 8660-003-BCP-DP-2016-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Operating Expenses and Equipment						
5340 - Consulting and Professional Services -	0	14,210	14,210	14,200	14,200	14,210
54XX - Special Items of Expense	0	267,400	267,400	267,400	267,400	267,400
Total Operating Expenses and Equipment	\$0	\$281,610	\$281,610	\$281,600	\$281,600	\$281,610
Total Budget Request	\$0	\$281,610	\$281,610	\$281,600	\$281,600	\$281,610

Fund Summary

Fund Source - State Operations						
0471 - Universal Lifeline Telephone Service Trust	0	14,210	14,210	14,200	14,200	14,210
Total State Operations Expenditures	\$0	\$14,210	\$14,210	\$14,200	\$14,200	\$14,210
Fund Source - Local Assistance						
0471 - Universal Lifeline Telephone Service Trust	0	267,400	267,400	267,400	267,400	267,400
Total Local Assistance Expenditures	\$0	\$267,400	\$267,400	\$267,400	\$267,400	\$267,400
Total All Funds	\$0	\$281,610	\$281,610	\$281,600	\$281,600	\$281,610

Program Summary

Program Funding						
6685028 - Universal Lifeline Telephone Service	0	281,610	281,610	281,600	281,600	281,610
Total All Programs	\$0	\$281,610	\$281,610	\$281,600	\$281,600	\$281,610